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**THE WHITE HOUSE
WASHINGTON**

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: December 19, 1983 Number: 175146CA Due By: 3 pm, Friday
December 23
Subject: DECISION MEMO: International Fund for Agricultural Development

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>			

REMARKS:

Please provide any comments you may have on the attached recommendation by 5 pm, Friday, December 23. It will be scheduled for review with the President after the 1st of the year.

I informed Craig Fuller 12/20/83 that we have no comments - that this is really not our bag and that we shall not weigh in on policy. He said he understood perfectly

RETURN TO:

Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

Katherine Anderson Don Clarey
 Tom Gibson Larry Herbolzheimer
Associate Director
Office of Cabinet Affairs
456-2800



Received S S

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THE WHITE HOUSE

WASHINGTON

December 14, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN R. BLOCK, CHAIRMAN PRO TEMPORE,
THE CABINET COUNCIL ON FOOD AND AGRICULTURE

SUBJECT: International Fund for Agricultural Development

Issues

This memorandum requests your decision on two issues relating to the International Fund for Agricultural Development (IFAD) which the Cabinet Council on Food and Agriculture has recently discussed. The two issues are:

- o What is the appropriate level of the U.S. FY 1985 contribution to IFAD?
- o Should the U.S. participate in the negotiation of a second replenishment of IFAD?

The first issue needs to be resolved for your FY 1985 budget. The last issue needs to be resolved before February when negotiation of a second replenishment of IFAD is scheduled to resume.

Background

The International Fund for Agricultural Development (IFAD) is an outgrowth of the 1974 World Food Conference. It was established in December 1977 to mobilize additional resources to be made available on concessional terms for agricultural development. Under the agreement establishing IFAD, industrialized countries (Category I) and petroleum-exporting countries (Category II) contribute resources for projects in developing countries (Category III) that address the needs of small farmers and the rural poor.

IFAD's initial funding for 1978-1980 amounted to \$1 billion, \$200 million of which was contributed by the U.S. IFAD has a staff of approximately 165, half professional and half support. Most of IFAD's projects are cofinanced by existing multilateral institutions, such as the World Bank and the regional development banks. However, IFAD also cooperates with national organizations, including development-oriented agencies like the U.S. Agency for International Development (AID).

Issue 1: Level of U.S. FY 1985 Contribution to IFAD

The Cabinet Council agreed to recommend that the Administration fulfill its commitment to complete the first replenishment by contributing the remaining \$90 million owed to IFAD. The Council disagreed on how rapidly the U.S. should complete this contribution. Some felt there was no reason to accelerate our current payment schedule of \$50 million in FY 1985 and \$40 million in FY 1986. Others felt this schedule could precipitate other nations slowing down their contributions with the U.S. bearing the burden of criticism that we were undermining the Fund.

The first replenishment of IFAD was negotiated to provide funds for three calendar years, 1981-1983. The pledged U.S. share was \$180 million (17 percent of the total pledges). By December 31, 1983, the end of the period covered by the first replenishment, the U.S. will have contributed \$90 million. The current plan for fulfilling the outstanding U.S. IFAD obligation calls for a \$50 million budget request in FY 1985 and a \$40 million budget request in FY 1986.

Except for Iran and Libya, other donors already have contributed roughly two-thirds of their pledges and are prepared to complete their contributions in late 1983 or early 1984.

As a matter of policy, the Administration has attempted to meet its obligations to all multilateral development banks (MDBs). The IFAD pledge is an obligation incurred by this Administration. You have indicated in writing that the U.S. plans to provide the balance of the U.S. contribution to IFAD before the end of 1983 (see attached letter to President Zia).

Four major Category I donors (United Kingdom, West Germany, France, Canada and Japan) recently informed the U.S. that they would draw out their first replenishment contributions, if the U.S. refused to accelerate payment of its pledge.

Options

The Council considered four options.

Option 1: Maximum Acceleration of Payment Schedule.

Request \$40 million in FY 1984 Supplemental and \$50 million in FY 1985 budget.

Advantages:

- o Comes as close as presently possible to complying with this Administration's financial commitment to IFAD.
- o Would not interfere with the pending State-AID budget request for FY 1985.

- o Would have an advantageous effect on the economic-military assistance ratio in the FY 1984 Supplemental.
- o Would avoid demise of IFAD that could result from a slow-down of major donors' first replenishment contributions.

Disadvantages:

- o Could prematurely signal U.S. support for a second replenishment of IFAD (unless accompanied by appropriate caveats).
- o Could necessitate reductions for other higher priority multilateral and bilateral foreign assistance programs.
- o Could set a precedent for accelerating payment of U.S. pledges to other multilateral development institutions.

Option 2: Accelerate Payment Schedule to Complete Commitment in FY 1985.

Request \$90 million in FY 1985 budget.

Advantages:

- o Next best option for complying with the Administration's financial commitment to IFAD.
- o Would avoid demise of IFAD that could result from a slowdown of major donors' contributions.

Disadvantages:

- o Same disadvantages of Option 1 plus has negative budget impact in that it requires an increase over the FY 1984 budget and the pending State-AID FY 1985 budget request for IFAD.

Option 3: Accelerate Somewhat the FY 1985 Payment Schedule.

Request \$70 million in FY 1985 budget and \$20 million in FY 1986 budget.

Advantages:

- o Might be enough to demonstrate U.S. good faith efforts to meet its commitments.
- o OECD nations probably would not withhold funding with this increased show of U.S. support.

Disadvantages:

- o Combines most of the disadvantages of Options 1, 2 and 4.

Option 4: Maintain Current Payment Schedule.

Request \$50 million in FY 1985 budget and \$40 million in FY 1986 budget.

Advantages:

- o No budget increase over FY 1984.
- o Requires no increase over pending State-AID FY 1985 budget request for IFAD.
- o Avoids U.S. action that is inconsistent with its behavior towards other multilateral and bilateral international assistance programs.

Disadvantages:

- o Constitutes a signal that the U.S. has a low regard for IFAD and is not prepared to honor its commitment.
- o Could prematurely signal U.S. opposition to a second replenishment of IFAD (unless accompanied by appropriate caveats).
- o Would seriously damage IFAD if OECD nations withhold final contribution.
- o Leaves U.S. paired with Iran and Libya.

Issue 2: U.S. Participation in Negotiation of a Second Replenishment of IFAD

The Cabinet Council agreed to recommend that the U.S. indicate a willingness to discuss a second replenishment of IFAD with the following two stipulations:

- o The OPEC countries maintain their current 43 percent share of IFAD contributions.
- o The U.S. share not increase above the current 17 percent level.

This approach would shift the focus of attention in the IFAD discussions from how rapidly the U.S. will fulfill its outstanding contributions, and whether we will agree to a second replenishment, to the OPEC desire to reduce their share of IFAD contributions. Should the second replenishment discussions prove

inconclusive, the U.S. would not be seen as responsible for a failure to reach an agreement under this strategy.

Arguments For Participation in Second Replenishment

1. IFAD places emphasis on small farmer and rural poor. IFAD is the only multilateral institution which is focused entirely on small farmers and landless poor. Successful projects can make a major impact in raising nations to agricultural self-reliance. As a specialized agency, IFAD can develop the depth of experience needed to design effective targeted projects and innovations. U.S. support of IFAD is a clear international illustration of our support for the agricultural sector.

2. IFAD provides for a partnership between OECD and OPEC countries. The governance of IFAD emphasizes partnership between OECD and OPEC. This serves an important diplomatic purpose by creating a forum for cooperation among the Arab and industrialized states.

3. IFAD leverages U.S. dollars. The U.S. contribution share to MDBs is generally 25 percent. In IFAD, the current U.S. share is 17 percent. As a result, the U.S. contribution gets more project dollars into the field than any other use. IFAD mobilizes more petro dollars for development per U.S. dollar invested than any other development institution. It is unlikely that OPEC states would divert their IFAD contributions to other international assistance programs, should IFAD's funding be reduced or eliminated.

4. IFAD is an efficient, low-overhead operation. IFAD operates with a limited number of staff. By design, it is a "fund", not a "bank", and is structurally prohibited from being involved in project implementation. Thus, administration of projects are undertaken by other institutions which cofinance IFAD projects. A recent study by Elmer Staats, former Comptroller General of the U.S., concluded that IFAD's staff was actually too small.

5. There are signs of growing support for IFAD in Congress. Senator Hatfield recently pledged his cooperation in securing appropriations necessary to keep IFAD a viable institution.

Arguments Against Participation in Second Replenishment

1. IFAD duplicates the programs of AID and MDBs. Bilateral and multilateral foreign assistance programs are already heavily oriented toward agriculture. Approximately half of U.S. development assistance goes into the agricultural sector. Most of these funds are spent on research and large infrastructure projects, rather than on projects with direct application to the rural poor. The results of these research and large scale projects may be more beneficial in the long run than small scale rural development projects.

2. IFAD has accomplished its mission. To the extent that IFAD was formed because of a lack of donor attention to the problems of the rural poor, it has accomplished its mission. Various industrialized countries and multilateral institutions are now placing increased emphasis on assisting the rural poor.

3. The U.S. lacks control over IFAD. IFAD loans are being made to countries such as Cuba, Nicaragua and Guyana. The U.S. does not have a blocking vote over country loans nor has it been successful in influencing IFAD's lending policy.

4. IFAD is one more drain on the Treasury. The U.S. could save a significant amount of money by dropping out of IFAD. Alternatively, the U.S. could supplement its bilateral assistance programs with funds that heretofore have gone to IFAD.

5. Long-standing congressional concerns about IFAD will be revived. Congress has been critical of IFAD in the past and has delayed funding due to concerns related to: the perception of a rapidly expanding IFAD staff; IFAD's loans to countries that are objectionable to the U.S.; and the lack of equity between OECD and OPEC donors in their contributions to IFAD.

Options

The Council considered two options.

Option 1: Participate in the negotiation of a second replenishment of IFAD with an understanding that the U.S. contribution to the second replenishment will be subject to strict predetermined conditions.

Option 2: Refuse to participate in the negotiation of a second replenishment of IFAD.

Decision

Issue 1: What is the appropriate level of the U.S. FY 1985 contribution to IFAD?

Option 1 _____ Maximum Acceleration of Payment Schedule.

Request \$40 million in FY 1984 Supplemental and \$50 million in FY 1985 budget.

Option 2 _____ Accelerate Payment Schedule to Complete Commitment in FY 1985.

Request \$90 million in FY 1985 budget.

Option 3 _____ Accelerate Somewhat FY 1985 Payment Schedule.

Request \$70 million in FY 1985 budget and \$20 million in FY 1986 budget.

Supported by: Agriculture.

Option 4 _____ Maintain Current Payment Schedule.

Request \$50 million in FY 1985 budget and \$40 million in FY 1986 budget.

Supported by: State, Treasury and OMB.

Note: AID would like to do something to indicate U.S. interest in IFAD but has not recommended a specific proposal.

Issue 2: Should the U.S. participate in the negotiation of a second replenishment of IFAD?

Option 1 Participate in the negotiation of a second replenishment of IFAD with an understanding that the U.S. contribution to the second replenishment would be subject to strict predetermined conditions.

Option 2 Refuse to participate in the negotiation of a second replenishment of IFAD.

Recommendation: The Cabinet Council on Food and Agriculture unanimously recommends Option 1, specifying that U.S. participation in a second replenishment of IFAD be subject to the following conditions:

- o The OPEC countries maintain their current 43 percent share of IFAD contributions.
- o The U.S. share not increase above the current 17 percent level.

Approve _____

Disapprove _____

If you approve this general approach, the Council will refine the other elements of the U.S. negotiating position on a second replenishment for your consideration.

6/15/82

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THE WHITE HOUSE
WASHINGTON

Dear Mr. President:

Thank you for your letter of March 27 expressing your concern over the replenishment for the International Fund for Agricultural Development (IFAD).

The United States has been a firm supporter of IFAD from its inception and my Administration will continue to support it. At present we are seeking funds from Congress for its first replenishment. As you know, we have succeeded in obtaining Congressional authorization for the full U.S. contribution of \$180 million. We were unable to secure an appropriation in our fiscal year 1982 legislation, owing in large measure to the delay in reaching the replenishment agreement and because of Congressional dissatisfaction with the expansion of the Fund's permanent staff. Now that an agreement has been concluded and a freeze adopted on the staffing issue, we have a much stronger case to present in support of the necessary appropriation.

We have included \$65.4 million for IFAD in our budget for fiscal year 1983 commencing October 1, 1982, and plan to provide the balance of the total U.S. contribution before the end of calendar year 1983. With the process of Congressional hearings and consideration of the fiscal year 1983 request now underway, we have no plans to seek IFAD funding through the alternative course of a special supplemental budget request. However, as the normal legislative process develops over the next several months, we will, if it becomes necessary to do so, examine carefully the feasibility of a supplemental request for IFAD.

With warm personal regards,

Sincerely,

Ronald Reagan

His Excellency
General Mohammad Zia-ul-Haq
President of the Islamic Republic
of Pakistan
Islamabad